

Message Text

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ACTION EUR-12

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E.O. 11652: N/A
TAGS: EGEN, EFIN, TU
SUBJECT: TURKISH FOREIGN TRADE PERFORMANCE, FIRST FIVE MONTHS 1977

REF: ANKARA 4778

1. SUMMARY. TURKEY'S CURRENT CRITICAL BALANCE OF PAYMENTS
PROBLEMS AND CONSEQUENT DECLINE IN FOREIGN EXCHANGE RESERVES
HAVE GENERALLY BEEN ATTRIBUTED TO POOR PERFORMANCE OF KEY EXPORTS.
WHILE TRUE THAT EXPORTS RECEIPTS AT BEST HAVE BEEN STAGNANT
IN FIRST FIVE MONTHS OF 1977, THEY PICKED UP MODERATELY IN
APRIL AND MAY. AT SAME TIME IMPORT BILL, EARLIER REGARDED AS LESS
OF CONTRIBUTOR TO CRISIS, HAS SHOWN RECENT TENDENCY TO ACCELERATE.
RESULT IN ANY EVENT IS NO SIGN OF IMPROVEMENT IN TURKISH
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TRADE BALANCE WHICH, ON PRESENT TRENDS, COULD END CURRENT YEAR
AS MUCH AS \$US FOUR BILLION IN DEFICIT. END SUMMARY.

2. IN FIRST FIVE MONTHS OF 1977, EXPORT REVENUES TOTALED
\$US 758 MILLION, 28 PERCENT (\$US 292 MILLION) LESS THAN TOTAL
FOR SAME PERIOD 1976 (SLIGHTLY OVER \$US ONE BILLION). THIS
REFLECTS SOME IMPROVEMENT COMPARED TO END OF FIRST QUARTER

WHEN REVENUES WERE 37 PERCENT LOWER THAN AT END OF FIRST QUARTER 1976. IF TREND ESTABLISHED SO FAR CONTINUES TURKISH EXPORTS COULD TOTAL ON THE ORDER OF \$US 1.8 BILLION THIS YEAR, A DECLINE OF ABOUT 10 PERCENT FROM ACTUAL TOTAL FOR 1976. (THIS WOULD BE SECOND RECENT YEAR IN WHICH EXPORTS HAVE RECORDED DECLINE: IN 1975 DROP OF NINE PERCENT FROM 1974 OCCURRED.)

3. BUT DESPITE SLIGHT IMPROVEMENT SINCE END OF FIRST QUARTER, OVERALL PERFORMANCE OF TURKISH EXPORTS IN 1977 HAS GENERALLY BEEN STAGNANT, IN SOME INSTANCES SHOWING SHARP DECLINES. WEAKEST PERFORMERS WERE TRADITIONAL PRINCIPAL EXPORT EARNERS -- TOBACCO AND RAW COTTON. COTTON EXPORTS DURING JAN-MAY FELL \$US 226 MILLION FROM LEVELS OF SAME PERIOD 1976, WHILE TOBACCO WAS DROPPING \$US 124 MILLION, A TOTAL DECLINE FOR THE TWO COMMODITIES OF \$US 350 MILLION. THIS MORE THAN OFFSET MODEST GAINS BY FRUITS AND VEGETABLES (\$US 10 MILLION), MINERALS (\$US 10 MILLION), AND INDUSTRIAL EXPORTS (LESS THAN \$US 50 MILLION).

4. AT SAME TIME OUTLAYS FOR TURKISH IMPORTS SHOWED TENDENCY TO ACCELERATE. IMPORTS TOTALED \$US 2,361 MILLION BY END OF MAY, A 21 PERCENT CLIMB FROM FIGURE (\$US 1,958 MILLION) FOR SAME PERIOD LAST YEAR. THIS IS WORSENING, FROM TRADE BALANCE VIEW-POINT, OF IMPORT ACCOUNT WHICH AT END OF FIRST QUARTER TOTALED ONLY 13 PERCENT MORE THAN SAME PERIOD 1976. IF RATE OF IMPORTING RECORDED SO FAR IN 1977 CONTINUES TO END OF YEAR, LIMITED OFFICIAL USE

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OUTFLOWS FOR IMPORTS COULD TOTAL \$US 5.7 BILLION. TRADE DEFICIT COULD THUS RUN IN THE ORDER OF \$US FOUR BILLION.

5. DETAILS AS TO COMPOSITION OF TURKISH IMPORTS ARE NOT YET AVAILABLE BEYOND THE FIRST QUARTER 1977. SURPRISINGLY, THESE REVEALED DECLINE OF NINE PERCENT IN VALUE OF TURKISH IMPORTS OF CRUDE OIL FROM SAME PERIOD 1976. THIS WAS OFFSET BY LARGE INCREASE IN BILL FOR POL PRODUCTS WITH RESULT THAT COMBINED TOTAL OF THESE TWO CLASSIFICATIONS ROSE THREE PERCENT. BIGGEST GAINS WERE RECORDED IN OUTLAYS FOR CHEMICAL INDUSTRY PRODUCT IMPORTS (52 PERCENT), RUBBER AND PLASTIC PRODUCTS (62 PERCENT), AND IRON AND STEEL PRODUCTS (27 PERCENT).

6. COMMENT. UPSHOT, BASED ON THESE FIVE MONTH FIGURES, IS THAT TURKISH TRADE ACCOUNT WILL BE EVEN MORE SEVERE DRAIN THIS YEAR THAN LAST ON BASIC BALANCE AND FOREIGN EXCHANGE RESERVES. EXPORTS ARE LIKELY TO CONTINUE TO FLUCTUATE DEPENDING ON CLIMATIC CONDITIONS, MARKET FACTORS AND TURKISH PRICING POLICIES, ALL OF WHICH BEAR HEAVILY AND UNPREDICTABLY ON MAJOR EXPORT EARNERS. POSSIBILITIES ARE PERHAPS SLIGHTLY MORE PROMISING ON THE IMPORT SIDE, WHERE, GIVEN POLITICAL WILL, A BASIC RESTRUCTURING OF TURKISH DEVELOPMENT PLANS TO CURB IMPORT

DEMAND COULD BE DEvised. BUT IT IS NOT LIKELY IN VIEW OF
CURRENT INSTABILITIES IN POLITICAL SYSTEM AND CLEAR COMMITMENT
OF ALL PARTIES TO CONTINUATION OF PAST RAPID GROWTH POLICIES.

7. IMPORT FIGURES FOR FIRST FIVE MONTHS REFLECT PHYSICAL
MOVEMENT OF GOODS THROUGH TURKISH CUSTOMS. THESE CONTINUE
TO ACCELERATE IN VALUE DESPITE FACT THAT CENTRAL BANK HAS
NOT AUTHORIZED TRANSFER OF FOREIGN EXCHANGE TO PAY FOR ANY
BUT MOST ESSENTIAL IMPORTS SINCE MARCH 1. TWO EXPLANATIONS
OCCUR TO US. MUCH OF WHAT CAME INTO THE COUNTRY IN FIRST FIVE
MONTHS WAS ALREADY ON ITS WAY BEFORE CENTRAL BANK TOOK ACTION
AND MUCH OF THIS MAY EVEN HAVE BEEN PAID FOR. OTHER IMPORTS,
WE UNDERSTAND FROM CENTRAL BANK OFFICIAL (REFTEL), ARE ENTERING
ON DEFERRED PAYMENT ARRANGEMENTS, TO THE ALARM OF THE BANK.
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NO IMPROVEMENT IN TRADE ACCOUNT CAN BE EXPECTED FOR SEVERAL
MONTHS UNTIL PIPELINE OF GOODS FOR WHICH TRANSFERS HAVE
ALREADY BEEN AUTHORIZED IS EMPTIED OUT AND SUPPLIERS ARE NO LONGER
WILLING TO SHIP ON DEFERRED-PAYMENTS BASIS.
END COMMENT. DILLON

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